

## **APPENDIX I**

### **ANALYSIS OF TREATMENT OF INTER-COMPANY DEBT IN SS-USA AND SUBSIDIARIES’ 2004 U.S. CORPORATION INCOME TAX RETURN**

Relevant portions of the 2004 U.S. Corporation Income Tax Return (IRS Form 1180) filed by Sports Shinko (USA) Co., Ltd. and subsidiaries (“2004 Return”) are attached to the Concise Statement of Facts as Exhibit 3.

There are two distinct portions of the 2004 Return that confirm that by December 31, 2004, there was no debt owing from SS-USA and its subsidiaries (including SS-Waikiki) to SS-Japan.

First, Form 5472 attached to the return shows that as of December 31, 2003 (the “beginning balance”), there was \$92,051,671 borrowed by SS-USA and subsidiaries from SS-Japan and \$5,315,921 loaned by SS-USA and subsidiaries to SS-Japan. Exhibit 3 at 256 1597, lines 7a and 18a, respectively.

By the end of the 2004, however, the amount borrowed and loaned by SS-USA and subsidiaries from SS-Japan was “***NONE***”. Id. at box 7b and 18b

Second, in a separate statement to the IRS, the 2004 Return shows an \$86,735,750 tax-free transfer of “accounts receivable” from SS-Japan to SS-USA and subsidiaries. Exhibit 3 at 256 1599.

This \$86.7 million figure is precisely the amount loaned to SS-USA and subsidiaries by SS-Japan as of the close of the prior year (December 31, 2003),

after subtracting the amount borrowed by SS-Japan from SS-USA and subsidiaries at the close of the prior year. This is shown on Form 5472. See yellow box on Exhibit 3 at 256 1597.

This figure (\$86,735,750) is therefore the net amount of loans payable by SS-USA and subsidiaries to SS-Japan as of December 31, 2003.

This alleged net debt was extinguished in 2004. In particular, the \$86,735,750 net 'loan' was transferred back to the alleged debtors – SS-USA & subsidiaries – by way of a “tax-free transfer” reported in the 2004 SS-USA tax return as follows:

[SS-Japan] has made a tax-free transfer of property to [SS-USA] and subsidiaries under Reg. § 1.351-3. Description of property transferred (including the taxpayer's interest in the property and the cost of the property, adjusted to the date of the transfer):

Property	Basis
Accounts Receivable	\$86,735,750
Stock received:	NONE
Amount of money received:	NONE
Other property received:	NONE
Liabilities assumed:	N/A

Exhibit 3 at 256 1599.

This confirms that at sometime in 2004, for no consideration, SS-Japan forgave all the 'debt' it was allegedly owed by SS-USA and subsidiaries (including SS-Waikiki) by transferring those debts back to SS-USA and subsidiaries in a tax-free exchange.

From the 2004 Return, it is clear that “all” the ‘debt’ between SS-Japan and SS-USA (and its subsidiaries) was forgiven because between December 31, 2003 and December 31, 2004, the net amount of debt owing to SS-Japan by SS-USA and subsidiaries changed from \$86.7 million to “none”. Exhibit 3 at 256 1597.